North Africa's unfinished revolution

Dear readers,

The end of 2015 will mark five years since the 'Arab Spring' began in Tunisia. With this upcoming landmark in mind, we have taken a look at how the main North African economies have been performing in the years following this global event.

Before I go on to our assessment, I want to mention why businesses should have North Africa on their radar. The five largest North African economies are populous - home to slightly over 200 million people, similar to the population of Brazil – relatively well-educated and geographically positioned to access markets in Europe, the Middle East and the rest of Africa. And our recent *Into Africa: The continent's Cities of Opportunity* report found that four of the top five African *cities of opportunity* were from North Africa, reinforcing the role that it can play in the region.

But, what does our analysis tell us? We think there are three main things to be aware of in North Africa:

- **The good news:** Most of these economies have been implementing reforms, ranging from reducing energy subsidies to taking steps to boost trade and attract international investment.
- **The long-term challenge:** The relatively highly educated workforce is one of the best assets that many of the countries in the region have. But generating adequate economic opportunities for the skilled workforce continues to be a challenge. With the working-age population set to rise by around 68 million - more than Germany's current workforce - by 2050, policymakers need to work hard to create an environment that businesses will invest in.
- **The short-term challenge:** Political and security concerns remain the biggest risk to North Africa and can be a drag on investment.

For businesses who want to establish a presence in North Africa, tourism represents one area where there could be opportunities. For example, if Egypt and Tunisia were able to replicate Morocco's success in tourism, it could unlock an additional $16 billion of economic activity across these two economies and create opportunities in sectors ranging from light manufacturing to logistics to restaurants and catering services.

Closer to home, we have asked Andrew Sentance, PwC's Senior Economic Adviser, and Neil Sherlock, PwC's Head of Reputation to give their views on the key political and economic issues facing the newly elected UK government. We also give our view on the first quarter GDP growth numbers released for the Eurozone, which showed that GDP growth in peripheral countries is now within a hair's breadth of the core.

Kind regards,

Richard Boxshall
PwC | Senior Economist

Fig 1: The five largest North African economies combined are home to just over 200 million people, similar to the population of Brazil

	2014 GDP (current US$, bn)	2014 GDP per capita (current US$)	2014 Population (millions)
Egypt	286	3,304	86.7
Algeria	214	5,532	38.7
Morocco	109	3,291	33.2
Sudan	74	1,980	37.3
Tunisia	49	4,415	11.0
Total	**732**	**3,539**	**206.9**
Brazil	2,353	11,604	202.8

Source: IMF

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Economic update: Eurozone peripheral picking up speed

Peripheral's GDP growth within a hair's breadth of core

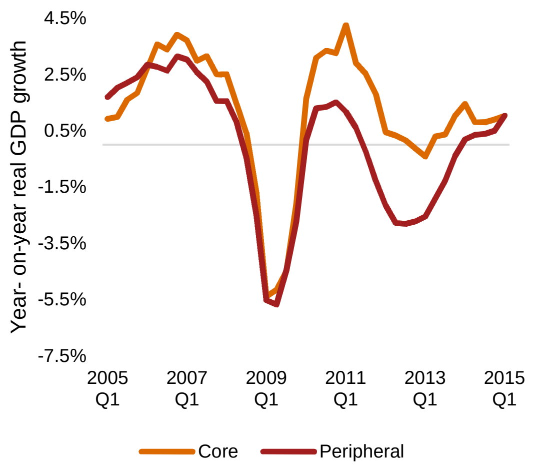
Eurozone GDP growth started off the year on the right foot, expanding by 0.4% quarter-on-quarter, and actually outstripping US and UK growth in this quarter.

However, the real success in the numbers lay in the peripheral Eurozone economies: Spain grew by 0.9% and Cyprus by 1.6%, which was the fastest rate recorded in the Eurozone. As Figure 2 shows, peripheral GDP growth (excluding Greece) is now within a hair's breadth of the core. The last time the peripheral countries grew faster than the core was in the first quarter of 2006.

In our main scenario we expect the peripheral to sustain its recent momentum on the back of low and controlled inflation, a weaker Euro and continued quantitative easing by the European Central Bank (ECB).

Meanwhile in the core, Germany, the largest Eurozone economy, expanded by 0.3% quarter-on-quarter with net exports dragging down the headline growth number. France expanded by 0.6% in Q1 driven by strong household consumption and an accumulation of inventory. But the latter is a temporary factor and French household consumption could also moderate over time as the boost from lower oil prices fades.

Fig 2: The peripheral economies staged an impressive rebound in the first quarter of 2015



Source: PwC analysis of Eurostat figures
The year-on-year figures are weighted using 2014 GDP numbers. The regions have been defined as follows: Core: Germany, France and the Netherlands, Peripheral: Italy, Spain, Portugal and Cyprus

Focus on the UK: election over now what comes next?

Following the outcome of the UK general election, some of the key political and economic issues and challenges likely to face the new Conservative government are starting to become clear. PwC's Neil Sherlock and Andrew Sentance give their views below.

Key political issues

Neil Sherlock is a PwC Partner and is the firm's Head of Reputation

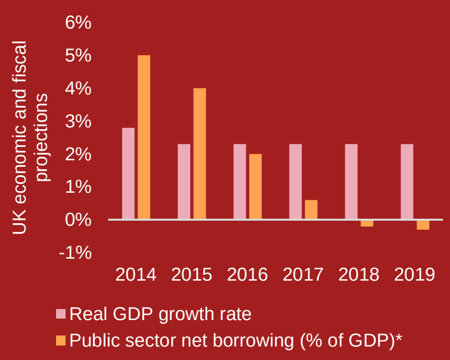
On the political front, the next five years are likely to be dominated by three clear major challenges to the Cameron Government, all of which are easy to write down but aren't so easy to deliver:

1. Continuing economic recovery: As this was at the heart of the Conservative pitch, a continuing recovery which voters start to feel in their pockets, is crucial to whether a new leader can win in 2020.

2. Renegotiating British membership of the European Union (EU): The Prime Minister has made it clear that he will try to renegotiate a new settlement with the EU and then put this "deal" to the electorate in a vote by the end of 2017. Whilst many point out that there will be Conservative rebels, the "deal" is expected to go through Parliament with cross-party support from Labour, the Scottish National Party (SNP) and the Liberal Democrats. Whilst a referendum can never be taken for granted, a campaign led by the Prime Minister with support from the major parties, businesses and the trade unions has a much greater chance of winning than under other political scenarios.

3. Delivering a new constitutional settlement: The final major challenge is the rise of the SNP and the need to deliver the promises of further powers for Scotland, the so called "vow". We can also expect additional powers to be given to cities and regions in England, as the government attempts to establish a "Northern Powerhouse".

Fig 3: UK public sector net borrowing is projected to turn negative in 2018/19



* Data is for financial years: 2014 represents 2014-15
Sources: PwC, OBR

Key economic issues

Andrew Sentance is PwC's Senior Economic Adviser

In terms of growth (see Figure 3) and employment prospects, the UK looks well placed relative to other major western economies. The new Conservative government also has some bold plans for enhancing the productive capability of the UK economy through investment in skills and infrastructure. But where do the big economic challenges lie?

1. Managing the potential negative impact of **uncertainties created by a European referendum and Scottish devolution**. A prolonged and/or unsuccessful EU renegotiation could be very damaging for inward investment and investor confidence in the UK economy.

2. Achieving and maintaining the **reductions in government current spending** as a share of GDP. With departmental spending already squeezed heavily under the Coalition government, and commitments to protect health spending and pensions, the burden of achieving this will fall on departments, local authorities and benefits paid to those in work. However, there is a significant risk that the new government will struggle to meet its target in this area and so higher public borrowing than the 2015 Budget projected is the most likely way in which the circle will be squared (see Figure 3).

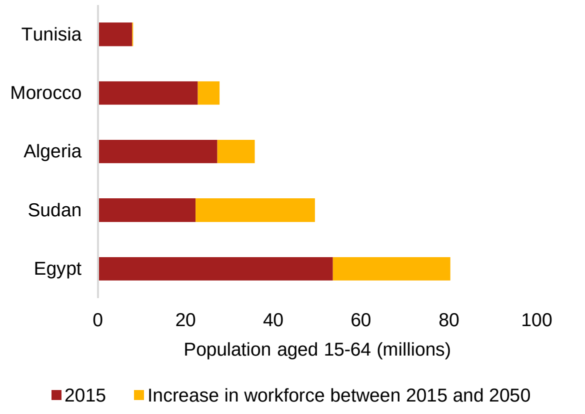
3. Delivering the ambitious programme of **infrastructure investment and regional development** which the new government appears to be promising. There is no provision in the 2015 Budget for an increase in government capital spending as a share of GDP despite ambitious commitments to spend on major road and rail projects. One way of achieving this is to encourage private sector investment in UK infrastructure projects, and the government is keen to do this. But private sector infrastructure investment can also be held back by political indecision and local environmental concerns.

For businesses, a key risk arising from the election outcome is the uncertainty surrounding the UK's future in the European Union. While the most likely scenario is that the UK will remain a full EU member, businesses may consider conducting a risk assessment of the potential impact of a UK exit from the EU on their organisation and markets. UK-based businesses will also need to consider if, and how, to engage in the public debate on this issue.

A longer version of the key economic issues section is available online at www.pwc.com/gew

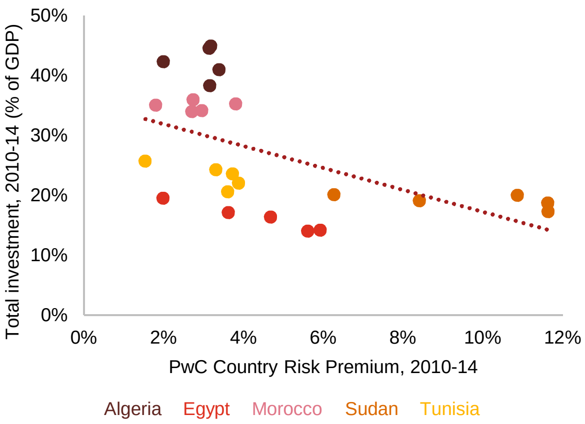
North Africa: what you need to know

Fig 4: North Africa needs to create an additional 68 million jobs by 2050



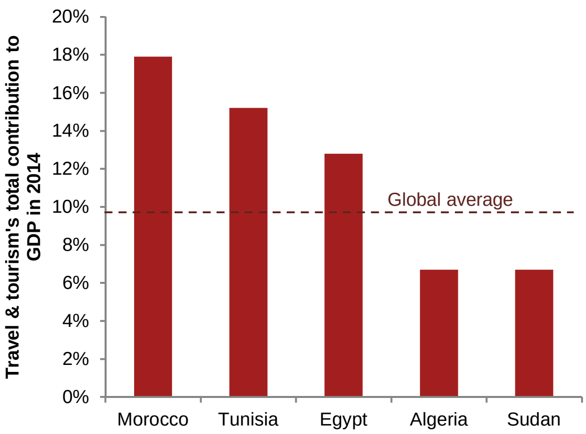
Source: PwC analysis of UN World Population Prospects figures

Fig 5: High levels of political risk lead to higher risk premiums at the expense of investment rates



Note: The Sudan country risk premium also includes South Sudan
Sources: PwC, IMF

Fig 6: Travel and tourism could be a 'cash cow' industry for some of the North African economies



Source: World Travel & Tourism Council

North Africa approaching a milestone

It's been almost five years since the beginning of the 'Arab Spring' which brought about significant change in North Africa and the wider region. With this milestone approaching we have taken a look at the five largest North African economies – Egypt, Algeria, Morocco, Sudan and Tunisia. Despite the differences that exist between these countries, we highlight some of the key points that businesses and policymakers should consider when thinking about North Africa.

Put together the five largest North African economies host just over 200 million people, which is comparable to the size of Brazil (see Figure 1). However, their average per capita income level is only around one third of that in Brazil, which highlights the potential on offer (but also the scale of the challenge ahead). It is also worth pointing out that 2015 could see some short-term economic gains in Egypt, Morocco, Sudan and Tunisia due to the lower oil price. Algeria, as an oil exporter, will be adversely affected but there could be a silver lining if this triggers reforms aimed at developing the private sector.

The good news: reform, reform, reform

The good news is that most North African countries have quietly gone ahead with the tough task of reforming their economies, particularly in their public sectors. Some of these changes have been through necessity, but most have been to keep up with their competitors. Egypt – the largest economy in the region – has, for example, largely eliminated energy subsidies, which has freed up resources for other purposes ranging from education to a gradual reduction in corporate tax rates. Sudan, which faces a different set of challenges, has also followed a similar approach.

Others have focused on stimulating their private sector by becoming more business friendly for example, Morocco has set up the Casablanca Finance City (CFC), which is aimed at bolstering intra-African trade by increasingly taking a more prominent role in the area. Tunisia is also planning to take bold steps to open up around 50% of its economy, and in particular its energy sector, which is currently closed to international investors.

The long-term challenge: the need to create jobs

This is all good news, but one of North Africa's long-standing weaknesses is the mismatch between the number of educated people of working age and the type of jobs.

One of North Africa's lesser known policy successes was the remarkable expansion in its population's educational attainment in the last quarter of the 20th century. But this was not good enough as the economy didn't manage to create adequate job opportunities, which was seen by some as a driver of the wave of unrest in the region.

Our analysis of UN population projections shows that — between now and 2050 — the workforce of the five North African economies is poised to increase by more than 60 million people (see Figure 4), which is larger than the workforce of Germany today.

The short-term challenge: political and security risks remain key issues

Nevertheless political and security concerns remain the biggest risks on the North African horizon. Both of these act as stumbling blocks for public and private investment, which will be critical to future prosperity. Figure 5 shows the negative correlation between investment rates and our in-house country risk premium measure.

Due to the extreme level of volatility and political risk in Libya at present, we have excluded it from our analysis. However, it is important that businesses which are seeking out opportunities in North Africa are aware of the risk of events in Libya spilling over into neighbouring countries.

So what are the opportunities?

For businesses who want to invest in North Africa, tourism represents one of the areas where there could be opportunities. In Morocco, tourism contributes almost one fifth of its economic activity (see Figure 6). If Egypt and Tunisia were to replicate this success, then it could unlock an additional $16 billion of economic activity in these two countries combined, helping to kick-start growth and create further opportunities in other sectors of the economy ranging from light manufacturing to logistics to restaurants and catering services. Morocco also has a strong financial services sector which could serve as an attractive entry point for businesses in this industry which are aiming to establish a presence throughout Africa.

However, before these potential benefits can be fully realised, steps will need to be taken to reduce the uncertainty in the region. Addressing these political and security concerns head-on could be the unfinished revolution that North Africa is waiting for.

Projections: June 2015

	Share of 2013 world GDP		Real GDP growth				Inflation			
	PPP*	MER*	2014p	2015p	2016p	2017-2021p	2014p	2015p	2016p	2017-2021p
Global (Market Exchange Rates)		100%	2.7	2.7	3.2	3.0	2.6	2.2	2.5	2.5
Global (PPP rates)	100%		3.2	3.2	3.7	3.5				
United States	16.4%	22.4%	2.4	2.4	2.7	2.5	1.6	0.2	1.8	1.9
China	15.8%	12.7%	7.6	7.0	7.2	5.7	2.1	2.2	1.8	3.0
Japan	4.6%	6.6%	-0.0	1.1	1.4	1.3	2.7	1.4	2.3	1.9
United Kingdom	2.3%	3.4%	2.8	2.3	2.3	2.3	1.5	0.2	1.7	2.0
Eurozone	12.3%	17.1%	0.9	1.4	1.7	1.8	0.5	0.1	1.4	1.4
France	2.5%	3.8%	0.4	1.3	1.4	1.9	0.6	0.1	1.1	1.2
Germany	3.4%	4.9%	1.6	1.7	1.9	1.6	0.8	0.2	1.8	1.7
Greece	0.3%	0.3%	0.7	-1.1	1.6	2.5	-1.4	-0.8	0.3	1.4
Ireland	0.2%	0.3%	4.8	3.4	3.4	2.5	0.3	0.2	1.1	1.5
Italy	2.0%	2.8%	-0.4	0.4	1.2	1.3	0.2	-0.1	1.8	1.4
Netherlands	0.8%	1.1%	0.8	1.4	1.6	1.9	1.0	1.2	1.1	1.3
Portugal	0.3%	0.3%	0.9	1.5	1.7	1.8	-0.2	0.1	0.8	1.5
Spain	1.5%	1.8%	1.4	2.5	2.4	2.2	-0.2	-0.8	1.0	1.2
Poland	0.9%	0.7%	3.3	3.4	3.5	3.2	0.2	-0.1	1.7	2.5
Russia	3.4%	2.8%	0.2	-5.0	-0.5	1.9	7.8	15.0	8.0	4.3
Turkey	1.4%	1.1%	2.9	3.2	3.8	3.7	8.9	7.0	6.5	6.2
Australia	1.0%	2.0%	2.6	2.6	3.1	2.9	2.6	2.5	2.6	2.5
India	6.6%	2.5%	5.3	7.0	6.9	6.1	4.4	4.2	5.2	6.0
Indonesia	2.3%	1.2%	1.3	5.8	5.7	5.4	6.3	6.5	6.7	5.1
South Korea	1.7%	1.7%	3.4	3.5	3.7	3.5	1.3	1.6	2.2	2.9
Argentina	0.9%	0.8%	-0.2	0.3	2.3	2.1	25.0	25.0	-	-
Brazil	3.0%	3.0%	0.1	-0.4	1.5	3.1	6.3	7.5	6.0	4.8
Canada	1.5%	2.4%	2.5	2.2	2.2	2.2	1.9	0.9	1.9	2.1
Mexico	2.0%	1.7%	2.1	2.8	3.3	3.9	4.0	3.2	3.3	3.1
South Africa	0.7%	0.5%	1.5	2.0	2.1	3.2	6.1	4.8	5.6	5.3
Nigeria	1.0%	0.7%	6.2	4.0	4.5	6.0	8.1	12.0	10.0	7.3
Saudi Arabia	1.5%	1.0%	3.6	2.6	3.0	4.4	2.7	2.3	3.0	3.4

Sources: *PwC analysis, National statistical authorities, Datastream and IMF. All inflation indicators relate to the Consumer Price Index (CPI), with the exception of the Indian indicator which refers to the Wholesale Price Index (WPI). Argentina's inflation projections use the IPCNu Index released by INDEC. We will provide a 2016 and 2017-2021 inflation projection once a longer time series of data is available. Also note that the tables above form our main scenario projections and are therefore subject to considerable uncertainties. We recommend that our clients look at a range of alternative scenarios.*

Interest rate outlook of major economies

	Current rate (Last change)	Expectation	Next meeting
Federal Reserve	0-0.25% (December 2008)	Rate to start to rise later in 2015	16-17 June
European Central Bank	0.05% (September 2014)	Rate on hold until at least late 2016	16 July
Bank of England	0.5% (March 2009)	First rate rise expected in 2016	9 July

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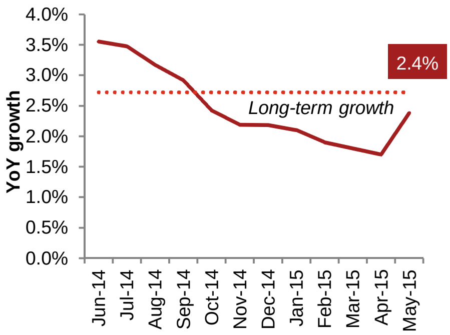
PwC's Global Consumer Index

The GCI has reversed its downward trend, indicating growth prospects in consumer spending are improving. Equity markets have picked up following a market correction in early April. Consumer and business confidence levels remain broadly similar to last month. However, industrial production also improved in the last month, especially in Asia and Europe, which suggests that producers anticipate spending to grow towards the end of Q2.



*The GCI is a monthly updated index providing an early steer on consumer spending and growth prospects in the world's 20 largest economies. For more information, please visit **www.pwc.co.uk/globalconsumerindex***

We help you understand how big economic, demographic, social, and environmental changes affect your organisation by setting out scenarios that identify growth opportunities and risks on a global, regional, national and local level. We help make strategic and tactical operational, pricing and investment decisions to support business value creation. We work together with you to achieve sustainable growth.